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UNCLAS SECTION 01 OF 02 AMMAN 002363

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E.O. 12958: N/A

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SUBJECT: JORDAN QIZ UPDATE APRIL 2002

REF: A. AMMAN 1616

[1](#)B. ANKARA 3379

SUMMARY

[1](#)1. (sbu) QIZ exporters and park managers are cautiously optimistic for a strong 2002 export season. Production is steady throughout the QIZ's, orders are on the rise, and new investment interest is beginning to trickle in once more. With the apparent passing of the immediate crisis in the West Bank, concerns about border access have been muted. Park managers continue to worry about competition from Turkish QIZ's, particularly as these new QIZ's might impact their own efforts to diversify out of the textile sector. Park managers would no doubt welcome the chance to take advantage of Turkish participation in the initiative, provided that this would entail Turkish and/or Israeli investment in high-end economic sectors in Jordanian QIZ parks. End summary.

PRODUCTION STEADY, ORDERS UP

[1](#)2. (sbu) QIZ-related exports from all of Jordan's QIZ-designated industrial parks are up in 2002. January-April exports from Al Hassan QIZ in Irbid total \$67.6 million, up from \$50.8 million for the same period in 2001. In a similar vein, January-April exports from Al Dulayl QIZ total \$14.4 million, compared to total year exports of \$17.8 million in 2001. According to most of our QIZ business contacts, orders are coming in at a steady pace. Many of the larger exporters are booked through the end of the fall, while smaller companies are booked through the summer. We have nearly completed a survey of all QIZ exporters to gauge predicted 2002 export volumes. If company predictions hold (as they did for 2001), QIZ-related exports could easily top \$500 million for 2002. Of that, we can expect QIZ exports to the US to be in the \$325-375 million range.

INVESTMENT STILL A MIXED BAG

[1](#)3. (sbu) On the investment side, a number of larger companies in each of the four major parks have begun ambitious expansion programs. While new investment interest remains relatively low, some park managers are starting to get expressions of interest again following the complete silence heard after the recent escalation of violence in the West Bank. On the other hand, we are hearing this spring of the first QIZ business failures. We have confirmed two closings (one in Irbid and one in Amman), and have heard rumors of a third (also in Amman). The companies that have ceased operations were smaller QIZ "sub-contractors," processing orders for larger QIZ exporters in the same zones. With the business downturn that plagued the sector after 9/11 and into the beginning of 2002, larger companies stopped contracting out orders, putting these smaller companies at risk.

OPERATIONS BACK TO NORMAL

[1](#)4. (sbu) Concerns reported ref a regarding access to Israeli inputs and transportation routes have largely melted away with the easing of tensions in the West Bank. Exporters and park managers believe the threat is still there, but agree that it has not yet materialized. Partially to help allay those fears and partially to spark business in Aqaba, a USAID-funded expert is looking into the possibility of establishing a dedicated direct shipping route from Aqaba to New York or Miami, primarily for QIZ exports. Two major US shipping lines have shown initial interest, provided QIZ exporters can send sufficient volume through the port. If the plan materializes, the dedicated route could shave several days off shipping times from Aqaba to the U.S. east coast, making Aqaba more competitive with Haifa and potentially reducing political risk for exporters.

TURKISH QIZ'S STILL A SORE SPOT

[1](#)5. (sbu) Park managers and investment promotion officers in the GOJ are resigned to the prospect of Turkish QIZ's, though they are still worried that such a scheme will draw potential

investors away from Jordanian QIZ parks. They recognize that the garment sector is unlikely to be affected, but are still concerned that Turkish zones could "steal" investors in higher-tech sectors away from Jordan. This is particularly worrying to GOJ investment promotion officers, who are already having a tough time diversifying the QIZ parks out of the textile sector.

COMMENT

16. (sbu) As during previous crises, QIZ exporters and park managers have shown a pragmatic, gritty ability to weather political and economic storms nearby and quietly go about improving on past successes. Absent further major disruptions, exporters should be able to come close to their \$500 million mark. In addition, we are beginning to hear that buyers are looking at Jordan as an alternate sourcing base in the run-up to 2005, when textile quotas will be eliminated world-wide. Many top exporting countries have in the past been allowed to "borrow" quota from future years to increase output in the current year. As 2004 approaches, though, it will be harder for major garment-producing countries to "borrow" quota as they have done in the past, since quotas will themselves be eliminated in 2005. The additional restrictions imposed by borrowing done in 2002 and 2003 may further restrict quotas in big producing countries in 2003 and 2004. If this happens, we might expect a short-term shift into Jordan of many of the orders cut off by more severe quota restrictions in those years, making QIZ prospects even more rosy.

17. (sbu) As for the angst over Turkish QIZ's, we expect that Jordan might actually welcome the development, provided it can benefit from some of the new relationships. If Turkish participation generates interest in the initiative from more specialized sectors, or if Turkish investors see Jordan as a place to do some of their QIZ processing, Jordanians may welcome the expansion of the initiative. Barring such developments, we expect Jordanian officials and park managers to turn a cold shoulder to visiting Turkish/Israeli delegations looking at Jordan as a model to set up shop elsewhere.

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